June 10, 2020

Mr. Mike Boerner  
Chair, NAIC Life Actuarial Task Force

Re: ACLI Comments on APF 2020-07

Dear Mr. Boerner:

The American Council of Life Insurers (ACLI)\(^1\) appreciates the opportunity to provide comments regarding the APF 2020-07, which eliminates the cash value floor for the nonforfeiture rate in VM-02. ACLI is supportive of this change.

**Likely Change to Federal Code Makes Floor Unnecessary**

The floor of 4% was added to the NAIC Valuation Manual in 2014 to provide consistency with the codified limitations in the Internal Revenue Code (IRC) §7702. Given low interest rates, US Congress has proposed changing the fixed limits in IRC §7702 to a variable indexed rate. This change has passed in the US House of Representatives, and will hopefully become signed legislation this year. APF 2020-07 was structured to address this potential uncertainty by referencing the Cash Value Accumulation Test (CVAT) rate within IRC §7702, which is currently 4% (consistent with the floor). Were the legislation to become law, the reference would automatically be updated, thus lowering the floor. If nothing passes, the reference will remain consistent with the current requirements. We note the reference to CVAT rate is only needed to Congressional uncertainty. If Congress changes the law, we can simply remove the floor for the following year’s NAIC Valuation Manual.

**Consumer Costs Will Likely Increase Regardless of the Change**

The low interest rate environment will continue to challenge the investment return on insurance products, which will likely lead to higher insurance premiums. Notably, there is likely to be a reduction in the valuation interest rate in 2021, which will lead to higher reserves that will be financed by higher premiums. Eliminating the interest rate floor in the nonforfeiture calculation will maintain the existing relationship between the rates (since nonforfeiture interest rate is 125% of the valuation rate), and will lead to more equitable nonforfeiture benefits for consumers.

We look forward to discussing our comments on a future call.

\(^1\) The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 280 member companies represent 94 percent of industry assets in the United States.
Sincerely,

[Signature]

cc Reggie Mazyck, NAIC